

Press Release: March 4, 2009



The Stability of the Domestic Banking System

Like any significant financial development, the ongoing CLICO matter has generated considerable public concern about the possible spillover effects on the local banking system. However, the Central Bank wishes to assure the public that the unease over the current and potential impact of these developments on the banking system is exaggerated and unfounded.

The Central Bank's ongoing inquiries have indicated that CLICO's failure has not posed any threat to the stability of local commercial banks, which all continue to operate as going concerns. All of our domestic banks are highly capitalized, with levels substantially in excess of the minimum requirement of 8% of risk weighted assets, as recommended by the Basle Committee—a body established in 1974 by central banks of the leading industrial countries and affiliated with the Bank for International Settlements (BIS). Also, the CLICO Group is not directly connected through ownership with any banking operations in The Bahamas; such arrangements would have required the prior authorization of the Central Bank. As we have been advised that the Group represented about 1% of the Bahamian Dollar insurance market, this removes the possibility of contagion for the system as a whole.

Given the overall soundness of the banking sector, the Central Bank is therefore concerned about recent unsubstantiated material that has surfaced about the health of particular institutions. In the present environment, such unfounded assertions could unnecessarily exacerbate the uncertainty being experienced by customers, to the detriment of the financial system.

Local banking operations are subject to focused prudential supervision by the Central Bank, with some of their activities being monitored, if not daily, on a weekly basis. This oversight has intensified during the current period of economic stress, with priority given to monitoring those risks that are most elevated for banks under these circumstances—that is, those in respect of their lending operations. Banks have been prompted to adopt more forward looking, aggressive approaches in making loss provisions for bad loans, in order to identify and pre-emptively address problems. Institutions have also been encouraged to mitigate risks, where possible, by restructuring loan facilities for customers who might be experiencing hardships with meeting their obligations.

The Central Bank is continuing to monitor developments in the financial system very closely and, as always, will take prompt and decisive actions to safeguard the safety and soundness of the banking system, as may be warranted.